

ATLANTIC COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Table of Contents

| | | <u>Page</u> |
|---|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor's Report | | 5-6 |
| Management's Discussion and Analysis | | 7-16 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statements: | | |
| Statement of Net Assets | A | 18 |
| Statement of Activities | B | 19 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 20 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D | 21 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E | 22 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F | 23 |
| Proprietary Fund Financial Statements: | | |
| Statement of Net Assets | G | 24 |
| Statement of Revenues, Expenditures and Changes in Fund Net Assets | H | 25 |
| Statement of Cash Flows | I | 26 |
| Fiduciary Fund Financial Statements: | | |
| Statement of Fiduciary Net Assets | J | 27 |
| Statement of Changes in Fiduciary Net Assets | K | 28 |
| Notes to Financial Statements | | 29-42 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund | | 44 |
| Notes to Required Supplementary Information - Budgetary Reporting | | 45 |
| Schedule of Funding Progress for the Retiree Health Plan | | 46 |
| Supplementary Information: | <u>Schedule</u> | |
| Nonmajor Governmental Funds: | | |
| Combining Balance Sheet | 1 | 48 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 | 49 |
| Capital Projects Accounts: | | |
| Combining Balance Sheet | 3 | 50 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 4 | 51 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 5 | 52-53 |
| Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund | 6 | 54 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds | 7 | 55 |
| Schedule of Expenditures of Federal Awards | 8 | 56 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | | 57-58 |
| Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | | 59-60 |
| Schedule of Findings and Questioned Costs | | 61-68 |

Atlantic Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------------------------|---------------------|
| Board of Education (Before September 2011 Election) | | |
| Phil Hascall | President | 2011 |
| Jon Martens | Vice President | 2011 |
| Dennis Davis | Board Member | 2011 |
| Glen Smith | Board Member | 2011 |
| Kristy Pellett | Board Member | 2013 |
| Board of Education (After September 2011 Election) | | |
| Kristy Pellett | Board President | 2013 |
| Dennis Davis | Vice President | 2015 |
| Phil Hascall | Board Member | 2015 |
| Rodney Hartwig | Board Member | 2015 |
| Josh McLaren | Board Member | 2013 |
| School Officials | | |
| Dr. Michael Amstein | Superintendent | 2012 |
| Mary Beth Fast | Business Manager/ Board Secretary | 2012 |
| Melinda McDermott | District Treasurer | 2012 |
| Brett Nitzschke | Attorney | 2012 |



Atlantic Community School District

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Certified Public Accountants
(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Atlantic Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Atlantic Community School District, Atlantic, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Atlantic Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2012 on our consideration of Atlantic Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic

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financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Atlantic Community School District's basic financial statements. We previously audited the financial statements for the previous eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

December 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Atlantic Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased to \$15,146,548 in fiscal year 2012 from \$15,358,361 in fiscal year 2011, while General Fund expenditures increased from \$14,485,158 in fiscal 2011 to \$15,434,964 in fiscal 2012. This resulted in a decrease in the District's General Fund balance from \$1,947,486 in fiscal 2011 to \$1,659,070 in fiscal 2012, a 14.81% decrease from prior year.
- The decrease in General fund revenues was attributed to an decrease in federal funding while the increase in expenditures can be attributed to an increase in salaries and benefits received by District employees.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Atlantic Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Atlantic Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Atlantic Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Atlantic Community School District Annual Financial Report

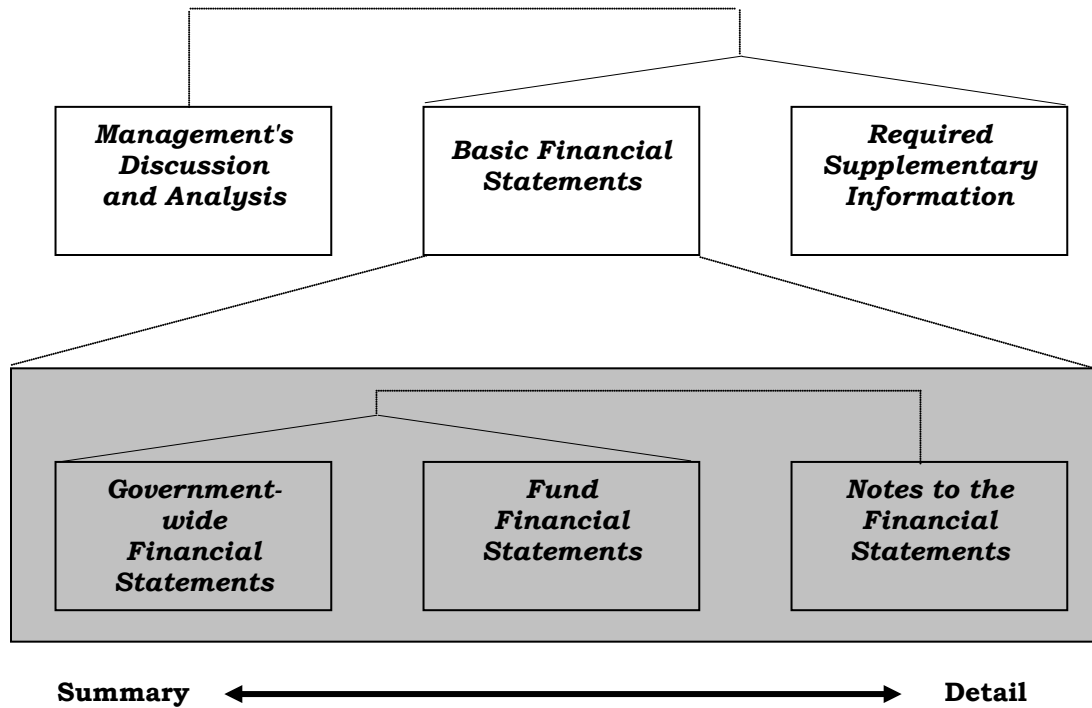


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 Major Features of the Government-Wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses, e.g., food service | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The District's internal service fund (another type of proprietary fund) is the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund to track revenues and expenditures for the District's partially self-funded insurance program.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This includes the Private-Purpose Trust Fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--|----------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-2012 |
| Current and other assets | \$ 15,312,895 | 11,025,819 | 469,844 | 417,045 | 15,782,739 | 11,442,864 | 37.93% |
| Capital assets | 19,643,610 | 15,670,964 | 65,496 | 64,832 | 19,709,106 | 15,735,796 | 25.25% |
| Total assets | 34,956,505 | 26,696,783 | 535,340 | 481,877 | 35,491,845 | 27,178,660 | 30.59% |
| Long-term obligations | 8,224,799 | 1,544,234 | 2,298 | 40 | 8,227,097 | 1,544,274 | 432.75% |
| Other liabilities | 8,491,769 | 7,530,582 | 40,690 | 16,725 | 8,532,459 | 7,547,307 | 13.05% |
| Total liabilities | 16,716,568 | 9,074,816 | 42,988 | 16,765 | 16,759,556 | 9,091,581 | 84.34% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 14,319,968 | 14,560,865 | 65,496 | 64,832 | 14,385,464 | 14,625,697 | -1.64% |
| Restricted | 2,124,419 | 1,193,347 | - | - | 2,124,419 | 1,193,347 | 78.02% |
| Unrestricted | 1,795,550 | 1,867,755 | 426,856 | 400,280 | 2,222,406 | 2,268,035 | -2.01% |
| Total net assets | \$ 18,239,937 | 17,621,967 | 492,352 | 465,112 | 18,732,289 | 18,087,079 | 3.57% |

The District's combined net assets increased by 3.57%, or \$645,210, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$931,072, or 78.02% from the prior year. The increase was primarily a result of the District's increase in Statewide Sales, Services and Use Tax fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$45,629, or 2.01%. The decrease in unrestricted net assets is mainly attributable to the decrease in fund balance for the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--|----------------------------|------------|-----------------------------|---------|-------------------|------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-2012 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 1,261,622 | 1,358,948 | 344,014 | 385,127 | 1,605,636 | 1,744,075 | -7.94% |
| Operating grants and contributions and restricted interest | 2,554,006 | 1,601,156 | 421,862 | 398,035 | 2,975,868 | 1,999,191 | 48.85% |
| Capital grants and contributions and restricted interest | 62,031 | 18,409 | - | - | 62,031 | 18,409 | 236.96% |
| General revenues: | | | | | | | |
| Property tax | 5,786,793 | 5,536,899 | - | - | 5,786,793 | 5,536,899 | 4.51% |
| Income surtax | 867,454 | 874,234 | - | - | 867,454 | 874,234 | -0.78% |
| Statewide sales, services and use tax | 1,160,885 | 1,003,401 | - | - | 1,160,885 | 1,003,401 | 15.70% |
| Unrestricted state grants | 6,322,890 | 6,876,447 | - | - | 6,322,890 | 6,876,447 | -8.05% |
| Non-specific program federal grants | 79,125 | 351,464 | - | - | 79,125 | 351,464 | -77.49% |
| Other | 190,319 | 256,492 | 11,854 | 2,042 | 202,173 | 258,534 | -21.80% |
| Total revenues | 18,285,125 | 17,877,450 | 777,730 | 785,204 | 19,062,855 | 18,662,654 | 2.14% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | 10,856,564 | 10,352,687 | - | - | 10,856,564 | 10,352,687 | 4.87% |
| Support services | 5,360,791 | 4,606,999 | 2,826 | 4,929 | 5,363,617 | 4,611,928 | 16.30% |
| Non-instructional programs | 197 | 11,364 | 747,664 | 736,349 | 747,861 | 747,713 | 0.02% |
| Other expenditures | 1,449,603 | 1,796,899 | - | - | 1,449,603 | 1,796,899 | -19.33% |
| Total expenses | 17,667,155 | 16,767,949 | 750,490 | 741,278 | 18,417,645 | 17,509,227 | 5.19% |
| Changes in net assets | 617,970 | 1,109,501 | 27,240 | 43,926 | 645,210 | 1,153,427 | -44.06% |
| Beginning net assets | 17,621,967 | 16,512,466 | 465,112 | 421,186 | 18,087,079 | 16,933,652 | 6.81% |
| Ending net assets | \$ 18,239,937 | 17,621,967 | 492,352 | 465,112 | 18,732,289 | 18,087,079 | 3.57% |

In fiscal 2012, local tax (property tax, income surtax and statewide sales, service and use tax) and unrestricted state grants accounted for 77.32% of the revenue from governmental activities while charges for services and operating grants and contributions account for approximately 98.48% of the revenue from business type activities.

The District's total revenues were approximately \$19.07 million of which approximately \$18.29 million was for governmental activities and approximately \$0.78 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 2.14% in revenues and a 5.46% increase in expenses. The increase in expenses was largely attributable to increased salaries and benefits received by District employees as well as the increase in net OPEB liability during the year.

Governmental Activities

Revenues for governmental activities were \$18,285,125 and expenses were \$17,667,155.

The following table represents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | | | Net Cost of Services | | |
|----------------------------|------------------------|-------------------|---------------------|----------------------|-------------------|---------------------|
| | 2012 | 2011 | Change 2011-2012 | 2012 | 2011 | Change 2011-2012 |
| Instruction | \$ 10,856,564 | 10,352,687 | 4.87% | 7,663,708 | 8,011,857 | -4.35% |
| Support services | 5,360,791 | 4,606,999 | 16.36% | 5,201,713 | 4,551,023 | 14.30% |
| Non-instructional programs | 197 | 11,364 | -98.27% | 197 | 11,364 | -98.27% |
| Other expenses | 1,449,603 | 1,796,899 | -19.33% | 923,878 | 1,215,192 | -23.97% |
| Totals | <u>\$ 17,667,155</u> | <u>16,767,949</u> | <u>5.36%</u> | <u>13,789,496</u> | <u>13,789,436</u> | <u>0.00%</u> |

- The cost financed by users of the District's programs was \$1,261,622.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,616,037.
- The net cost of governmental activities was financed with \$5,786,793 in property tax, \$867,454 in income surtax, \$1,160,885 in statewide sales, service and use tax, \$6,322,890 in unrestricted state grants, \$79,125 in non-specific program federal grants, \$16,537 in interest income and \$173,782 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$777,730 and expenses were \$750,490. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Atlantic Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,839,793, above last year's ending fund balances of \$2,549,694. However, the primary reason for the increase in combined fund balance is mainly because of unused revenue bond proceeds related to the District's Middle School renovation project.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from \$1,947,486 in fiscal 2011 to \$1,659,070 in fiscal 2012 is a product of many factors. Revenues decreased due to the decrease in federal revenues received during the year while expenditures increased due to salaries and benefits received by District employees.
- The Capital Projects Fund combined balance increased from \$497,603 at June 30, 2011 to \$3,279,315 at the end of fiscal 2012. The Statewide Sales, Services and Use Tax Fund increased to an ending fund balance of \$2,947,871 at June 30, 2012 compared to \$162,252 at June 30, 2011. The Physical Plant and Equipment Levy Fund showed a modest decrease in fund balance from \$325,002 at June 30, 2011 to \$321,095 at June 30, 2012.
- The Debt Service Fund balance increased from a deficit fund balance of \$110,883 in fiscal 2011 to an ending positive fund balance of \$659,610 in fiscal 2012. The increase in Debt Service Fund balance is mainly attributable to the creation of the \$578,390 debt reserve fund for the \$7.66 million bond issuance that was made during the year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$465,112 at June 30, 2011 to \$492,352 at June 30, 2012, representing an increase of 5.86%. Fund revenues being greater than fund expenditures enabled the fund to increase overall.

BUDGETARY HIGHLIGHTS

Over the course of the year, Atlantic Community School District amended its budget one time by \$2,404,425 to reflect additional expenditures in the non-instructional programs and other expenditures functional areas.

The District's revenues were \$79,355 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal source revenues than originally anticipated.

It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested approximately \$19.71 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 25.25% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$819,144.

The original cost of the District's capital assets was \$30.56 million. Governmental funds account for approximately \$30.31 million with the remainder of approximately \$0.25 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$4,796,016 at June 30, 2012 as compared to \$121,627 at June 30, 2011. The increase in construction in progress is due to the Middle School renovation project that was not completed at year end.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total |
|--------------------------|----------------------------|------------|-----------------------------|--------|-------------------|------------|-----------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-2012 |
| Land | \$ 928,419 | 928,419 | - | - | 928,419 | 928,419 | 0.00% |
| Construction in progress | 4,796,016 | 121,627 | - | - | 4,796,016 | 121,627 | 3843.22% |
| Buildings | 13,040,178 | 13,616,425 | - | - | 13,040,178 | 13,616,425 | -4.23% |
| Land improvements | 599,688 | 632,584 | - | - | 599,688 | 632,584 | -5.20% |
| Machinery and equipment | 279,309 | 371,909 | 65,496 | 64,832 | 344,805 | 436,741 | -21.05% |
| Total | \$ 19,643,610 | 15,670,964 | 65,496 | 64,832 | 19,709,106 | 15,735,796 | 25.25% |

Long-Term Debt

At June 30, 2012, the District had \$8,227,097 in general obligation bonds payable, revenue bonds payable, bus lease payable and other long-term debt outstanding. This represents an increase of 432.75% from last year. (See Figure A-7) More detailed information about the District's long-term debt is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$345,000 at June 30, 2012. Fiscal 2013 the final payment on the general obligation bonds will be made.

During fiscal 2012, the District issued \$7.66 million in revenue bonds to finance the Middle School renovation project. Principal of \$320,000 was paid during the year and the bonds will have to be repaid by the District until 2030. At June 30, 2012, the District had \$7,340,000 of revenue bonds outstanding.

The District had outstanding bus lease payable of \$45,863 at June 30, 2012. The final payment of the bus lease will be made during fiscal 2013.

The District had outstanding early retirement payable of \$125,592 at June 30, 2012.

The District also had a net OPEB liability of \$370,642 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental Activities | | Business Type Activities | | Total District | | Total |
|--------------------------|----------------------------|-----------|-----------------------------|------|-------------------|-----------|-----------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-2012 |
| General Obligation Bonds | \$ 345,000 | 1,020,000 | - | - | 345,000 | 1,020,000 | -66.18% |
| Revenue Bonds | 7,340,000 | - | - | - | 7,340,000 | - | 100.00% |
| Bus Lease | 45,863 | 90,099 | - | - | 45,863 | 90,099 | -49.10% |
| Early Retirement | 125,592 | 188,388 | - | - | 125,592 | 188,388 | -33.33% |
| Compensated Absences | - | 56,397 | - | - | - | 56,397 | -100.00% |
| Net OPEB Liability | 368,344 | 189,350 | 2,298 | 40 | 370,642 | 189,390 | 95.70% |
| Total | \$ 8,224,799 | 1,544,234 | 2,298 | 40 | 8,227,097 | 1,544,274 | 432.75% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- Although the District has experienced declining enrollment over the past several years, the District is now expecting this trend to reverse.
- The District continues to have high health insurance claims which in turn raise the cost of premiums that need to be paid. The rise in costs of premiums will have an adverse effect on General Fund.
- On July 1, 2012, the IPERS increase to 8.67% will increase the Atlantic Community Schools employer benefit costs during fiscal 2013. An additional increase to 8.93% is anticipated for FY14.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Beth Fast, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

BASIC FINANCIAL STATEMENTS

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 7,623,123 | 456,767 | 8,079,890 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 288,579 | - | 288,579 |
| Succeeding year | 5,713,280 | - | 5,713,280 |
| Income surtax | 850,975 | - | 850,975 |
| Accounts | 6,394 | 91 | 6,485 |
| Due from other funds | 16,666 | - | 16,666 |
| Due from other governments | 813,878 | - | 813,878 |
| Inventories | - | 12,986 | 12,986 |
| Capital assets, net of accumulated depreciation | 19,643,610 | 65,496 | 19,709,106 |
| Total Assets | 34,956,505 | 535,340 | 35,491,845 |
| Liabilities | | | |
| Accounts payable | 1,330,618 | 15,695 | 1,346,313 |
| Salaries and benefits payable | 1,445,867 | 83 | 1,445,950 |
| Due to other funds | - | 16,666 | 16,666 |
| Accrued interest payable | 2,004 | - | 2,004 |
| Deferred revenue: | | | |
| Succeeding year property tax | 5,713,280 | - | 5,713,280 |
| Unearned revenue | - | 8,246 | 8,246 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 345,000 | - | 345,000 |
| Revenue bonds payable | 295,000 | - | 295,000 |
| Bus lease payable | 45,863 | - | 45,863 |
| Early retirement | 62,796 | - | 62,796 |
| Portion due after one year: | | | |
| Revenue bonds payable | 7,045,000 | - | 7,045,000 |
| Early retirement | 62,796 | - | 62,796 |
| Net OPEB liability | 368,344 | 2,298 | 370,642 |
| Total Liabilities | 16,716,568 | 42,988 | 16,759,556 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 14,319,968 | 65,496 | 14,385,464 |
| Restricted for: | | | |
| Categorical funding | 397,968 | - | 397,968 |
| Student activities | 194,747 | - | 194,747 |
| School infrastructure | 550,999 | - | 550,999 |
| Physical plant and equipment levy | 321,095 | - | 321,095 |
| Debt service | 659,610 | - | 659,610 |
| Unrestricted | 1,795,550 | 426,856 | 2,222,406 |
| Total Net Assets | \$ 18,239,937 | 492,352 | 18,732,289 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|----------------------|----------------------------|--|--|--|--------------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Govern- mental Activities | Business Type Activities | Total |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 6,838,212 | 663,586 | 1,189,421 | - | (4,985,205) | - | (4,985,205) |
| Special | 2,158,752 | 240,817 | 355,129 | - | (1,562,806) | - | (1,562,806) |
| Other | 1,859,600 | 314,499 | 429,404 | - | (1,115,697) | - | (1,115,697) |
| | 10,856,564 | 1,218,902 | 1,973,954 | - | (7,663,708) | - | (7,663,708) |
| Support services: | | | | | | | |
| Student | 355,568 | - | 21,720 | - | (333,848) | - | (333,848) |
| Instructional staff | 880,678 | - | 15,480 | - | (865,198) | - | (865,198) |
| Administration | 1,655,478 | 25,000 | 1,996 | - | (1,628,482) | - | (1,628,482) |
| Operation and maintenance of plant | 1,862,665 | - | - | 62,031 | (1,800,634) | - | (1,800,634) |
| Transportation | 606,402 | 17,720 | 15,131 | - | (573,551) | - | (573,551) |
| | 5,360,791 | 42,720 | 54,327 | 62,031 | (5,201,713) | - | (5,201,713) |
| Non-instructional programs: | | | | | | | |
| Food service operations | 197 | - | - | - | (197) | - | (197) |
| Long-term debt interest | 228,805 | - | - | - | (228,805) | - | (228,805) |
| Other expenditures: | | | | | | | |
| AEA flowthrough | 525,725 | - | 525,725 | - | - | - | - |
| Depreciation(unallocated)* | 695,073 | - | - | - | (695,073) | - | (695,073) |
| | 1,220,798 | - | 525,725 | - | (695,073) | - | (695,073) |
| Total governmental activities | 17,667,155 | 1,261,622 | 2,554,006 | 62,031 | (13,789,496) | - | (13,789,496) |
| Business Type activities: | | | | | | | |
| Support services: | | | | | | | |
| Administration | 109 | - | - | - | - | (109) | (109) |
| Operation and maintenance of plant | 2,717 | - | - | - | - | (2,717) | (2,717) |
| | 2,826 | - | - | - | - | (2,826) | (2,826) |
| Non-instructional programs: | | | | | | | |
| Food service operations | 747,664 | 344,014 | 421,862 | - | - | 18,212 | 18,212 |
| Total business type activities | 750,490 | 344,014 | 421,862 | - | - | 15,386 | 15,386 |
| Total | \$ 18,417,645 | 1,605,636 | 2,975,868 | 62,031 | (13,789,496) | 15,386 | (13,774,110) |
| General Revenues: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | | \$ 4,760,241 | - | 4,760,241 |
| Debt service | | | | | 822,030 | - | 822,030 |
| Capital outlay | | | | | 204,522 | - | 204,522 |
| Income surtax | | | | | 867,454 | - | 867,454 |
| Statewide sales, services and use tax | | | | | 1,160,885 | - | 1,160,885 |
| Unrestricted state grants | | | | | 6,322,890 | - | 6,322,890 |
| Non-specific program federal grants | | | | | 79,125 | - | 79,125 |
| Unrestricted investment earnings | | | | | 16,537 | 2,686 | 19,223 |
| Other general revenues | | | | | 173,782 | 9,168 | 182,950 |
| Total general revenues | | | | | 14,407,466 | 11,854 | 14,419,320 |
| Changes in net assets | | | | | 617,970 | 27,240 | 645,210 |
| Net assets beginning of year | | | | | 17,621,967 | 465,112 | 18,087,079 |
| Net assets end of year | | | | | \$ 18,239,937 | 492,352 | 18,732,289 |

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|--|---------------------|---------------------|------------------|----------------|-------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 2,402,342 | 3,625,526 | 1,223,144 | 239,749 | 7,490,761 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 243,386 | 11,133 | 23,784 | 10,276 | 288,579 |
| Succeeding year | 4,896,676 | 238,411 | 353,193 | 225,000 | 5,713,280 |
| Income surtax | 607,839 | 243,136 | - | - | 850,975 |
| Accounts | 4,100 | - | - | 2,294 | 6,394 |
| Due from other funds | 167,231 | - | - | - | 167,231 |
| Due from other governments | 559,548 | 254,330 | - | - | 813,878 |
| Total Assets | \$ 8,881,122 | 4,372,536 | 1,600,121 | 477,319 | 15,331,098 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 271,670 | 611,674 | 436,753 | 10,521 | 1,330,618 |
| Salaries and benefits payable | 1,445,867 | - | - | - | 1,445,867 |
| Due to other funds | - | - | 150,565 | - | 150,565 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 4,896,676 | 238,411 | 353,193 | 225,000 | 5,713,280 |
| Income surtax | 607,839 | 243,136 | - | - | 850,975 |
| Total liabilities | 7,222,052 | 1,093,221 | 940,511 | 235,521 | 9,491,305 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Categorical funding | 397,968 | - | - | - | 397,968 |
| Construction | - | 2,407,221 | - | - | 2,407,221 |
| Management levy purposes | - | - | - | 94,952 | 94,952 |
| Student activities | - | - | - | 194,747 | 194,747 |
| School infrastructure | - | 550,999 | - | - | 550,999 |
| Physical plant and equipment | - | 321,095 | - | - | 321,095 |
| Debt service | - | - | 659,610 | - | 659,610 |
| Unassigned: | | | | | |
| General | 1,261,102 | - | - | - | 1,261,102 |
| Student activities | - | - | - | (47,901) | (47,901) |
| Total fund balances | 1,659,070 | 3,279,315 | 659,610 | 241,798 | 5,839,793 |
| Total Liabilities and Fund Balances | \$ 8,881,122 | 4,372,536 | 1,600,121 | 477,319 | 15,331,098 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

| | |
|---|-----------------------------|
| Total fund balances of governmental funds(page 20) | \$ 5,839,793 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 19,643,610 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | 850,975 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (2,004) |
| Blending of the Internal Service Funds to be reflected on an entity-wide basis. | 132,362 |
| Long-term liabilities, including bonds payable, bus lease payable, early retirement payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | (8,224,799) |
| Net assets of governmental activities(page 18) | <u>\$ 18,239,937</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|--|--------------|---------------------|-----------------|----------|-------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 5,218,792 | 1,611,016 | 822,030 | 158,242 | 7,810,080 |
| Tuition | 839,800 | - | - | - | 839,800 |
| Other | 330,447 | 6,773 | 6,386 | 469,462 | 813,068 |
| State sources | 8,230,236 | 223 | 922 | 172 | 8,231,553 |
| Federal sources | 523,541 | 62,031 | - | - | 585,572 |
| Total revenues | 15,142,816 | 1,680,043 | 829,338 | 627,876 | 18,280,073 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 6,766,547 | 3,190 | - | 37,685 | 6,807,422 |
| Special | 2,156,126 | - | - | - | 2,156,126 |
| Other | 1,399,329 | - | - | 430,258 | 1,829,587 |
| | 10,322,002 | 3,190 | - | 467,943 | 10,793,135 |
| Support services: | | | | | |
| Student | 348,426 | - | - | - | 348,426 |
| Instructional staff | 809,346 | 65,102 | - | - | 874,448 |
| Administration | 1,461,505 | 49,619 | 765 | 25,518 | 1,537,407 |
| Operation and maintenance of plant | 1,437,973 | 214,083 | - | 98,557 | 1,750,613 |
| Transportation | 529,987 | 4,676 | - | 9,177 | 543,840 |
| | 4,587,237 | 333,480 | 765 | 133,252 | 5,054,734 |
| Non-instructional programs: | | | | | |
| Food service operations | - | - | - | 371 | 371 |
| Capital outlay | - | 4,881,579 | - | - | 4,881,579 |
| Long-term debt: | | | | | |
| Principal | - | - | 1,039,236 | - | 1,039,236 |
| Interest and fiscal charges | - | - | 231,491 | - | 231,491 |
| | 0 | 0 | 1,270,727 | 0 | 1,270,727 |
| Other expenditures: | | | | | |
| AEA flowthrough | 525,725 | - | - | - | 525,725 |
| Total expenditures | 15,434,964 | 5,218,249 | 1,271,492 | 601,566 | 22,526,271 |
| Excess(Deficiency) of revenues over(under) expenditures | (292,148) | (3,538,206) | (442,154) | 26,310 | (4,246,198) |
| Other financing sources(uses): | | | | | |
| Sale of equipment | 3,732 | - | - | - | 3,732 |
| Transfer in | - | - | 1,212,647 | - | 1,212,647 |
| Transfer out | - | (1,212,647) | - | - | (1,212,647) |
| Revenue bond issuance | - | 7,660,000 | - | - | 7,660,000 |
| Premium on revenue bond issuance | - | 707 | - | - | 707 |
| Discount on revenue bond issuance | - | (128,142) | - | - | (128,142) |
| Total other financing sources(uses) | 3,732 | 6,319,918 | 1,212,647 | - | 7,536,297 |
| Net change in fund balances | (288,416) | 2,781,712 | 770,493 | 26,310 | 3,290,099 |
| Fund balances beginning of year | 1,947,486 | 497,603 | (110,883) | 215,488 | 2,549,694 |
| Fund balances end of year | \$ 1,659,070 | 3,279,315 | 659,610 | 241,798 | 5,839,793 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds(page 22) \$ 3,290,099

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 4,780,887 | |
| Depreciation expense | <u>(808,241)</u> | 3,972,646 |

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

5,052

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issuances and repayments are as follows:

| | | |
|--------|------------------|-------------|
| Issued | \$ (7,660,000) | |
| Repaid | <u>1,039,236</u> | (6,620,764) |

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,686

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

28,052

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

| | | |
|-------------------------------|------------------|-----------------|
| Early retirement | \$ 62,796 | |
| Compensated absences | 56,397 | |
| Other postemployment benefits | <u>(178,994)</u> | <u>(59,801)</u> |

Changes in net assets of governmental activities(page 19) \$ 617,970

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

| | Business Type | |
|--|-------------------|----------------|
| | Activities: | Governmental |
| | Enterprise | Activities: |
| | Fund | Internal |
| | School | Service |
| | Nutrition | Fund |
| Assets | | |
| Cash and cash equivalents | \$ 456,767 | 132,362 |
| Accounts receivable | 91 | - |
| Inventories | 12,986 | - |
| Capital assets, net of accumulated depreciation | 65,496 | - |
| Total Assets | 535,340 | 132,362 |
| Liabilities | | |
| Accounts payable | 15,695 | - |
| Salaries and benefits payable | 83 | - |
| Due to other funds | 16,666 | - |
| Unearned revenues | 8,246 | - |
| Net OPEB liability | 2,298 | - |
| Total Liabilities | 42,988 | - |
| Net Assets | | |
| Invested in capital assets | 65,496 | - |
| Unrestricted | 426,856 | 132,362 |
| Total Net Assets | \$ 492,352 | 132,362 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

| | Business Type Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
|--|---|--|
| OPERATING REVENUE: | | |
| Local sources: | | |
| Charges for services | \$ 344,014 | - |
| Miscellaneous | 9,168 | 1,208,196 |
| TOTAL OPERATING REVENUES | 353,182 | 1,208,196 |
| OPERATING EXPENSES: | | |
| Instruction: | | |
| Regular: | | |
| Benefits | - | 631,314 |
| Special: | | |
| Benefits | - | 198,839 |
| Other: | | |
| Benefits | - | 38,952 |
| | - | 869,105 |
| Support services: | | |
| Student: | | |
| Benefits | - | 56,806 |
| Instructional staff | | |
| Benefits | - | 48,357 |
| Administration: | | |
| Benefits | - | 118,505 |
| Supplies | 109 | - |
| Operation and maintenance of plant: | | |
| Benefits | - | 71,002 |
| Services | 2,717 | - |
| Transportation: | | |
| Benefits | - | 16,369 |
| | 2,826 | 311,039 |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | 292,935 | - |
| Benefits | 57,391 | - |
| Services | 17,695 | - |
| Supplies | 358,522 | - |
| Depreciation | 10,903 | - |
| Other | 3,174 | - |
| | 740,620 | - |
| TOTAL OPERATING EXPENSES | 743,446 | 1,180,144 |
| OPERATING INCOME (LOSS) | (390,264) | 28,052 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| State sources | 6,936 | - |
| Federal sources | 414,926 | - |
| Interest income | 2,686 | - |
| Loss on asset disposal | (7,044) | - |
| TOTAL NON-OPERATING REVENUES | 417,504 | - |
| Change in net assets | 27,240 | 28,052 |
| Net assets beginning of year | 465,112 | 104,310 |
| Net assets end of year | \$ 492,352 | 132,362 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

| | Business Type | |
|--|---------------|--------------|
| | Activities: | Governmental |
| | Enterprise | Activities: |
| | Fund | Internal |
| | School | Service |
| | Nutrition | Fund |
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 346,059 | - |
| Cash received from miscellaneous sources | 9,168 | 1,208,196 |
| Cash paid to employees for services | (347,985) | - |
| Cash paid to suppliers for goods or services | (322,437) | (1,180,144) |
| Net cash provided by(used in) operating activities | (315,195) | 28,052 |
| Cash flows from non-capital financing activities: | | |
| Interfund borrowings from General Fund | 16,666 | - |
| State grants received | 6,936 | - |
| Federal grants received | 375,455 | - |
| Net cash provided by non-capital financing activities | 399,057 | - |
| Cash flows from investing activities: | | |
| Interest on investments | 2,686 | - |
| Cash flows from capital financing activities: | | |
| Purchase of assets | (18,611) | - |
| Net increase in cash and cash equivalents | 67,937 | 28,052 |
| Cash and cash equivalents at beginning of year | 388,830 | 104,310 |
| Cash and cash equivalents at end of year | \$ 456,767 | 132,362 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | |
| Operating income(loss) | \$ (390,264) | 28,052 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | |
| Commodities consumed | 50,559 | - |
| Depreciation | 10,903 | - |
| Decrease in inventories | 1,779 | - |
| Decrease in accounts receivable | 2,271 | - |
| Increase in accounts payable | 7,442 | - |
| Increase in salaries and benefits payable | 83 | - |
| Decrease in unearned revenue | (226) | - |
| Increase in net OPEB liability | 2,258 | - |
| Net cash provided by(used in) operating activities | \$ (315,195) | 28,052 |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received \$50,559 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

| | | Private Purpose Trust Scholarship |
|-----------------------------|----|---|
| Assets | | |
| Cash and pooled investments | \$ | 155,253 |
| Liabilities | | - |
| Net Assets | | |
| Unrestricted | \$ | 155,253 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

| | Private Purpose Trust Scholarship |
|------------------------------|---|
| ADDITIONS: | |
| Local sources: | |
| Interest | \$ 909 |
| DEDUCTIONS: | |
| Instruction: | |
| Regular: | |
| Scholarships awarded | 3,250 |
| Change in net assets | (2,341) |
| Net assets beginning of year | 157,594 |
| Net assets end of year | \$ 155,253 |

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) **Summary of Significant Accounting Policies**

The Atlantic Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Atlantic Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Atlantic Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The amount of unused bond proceeds for construction has been added back to calculate the final invested in capital assets, net of related debt.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The Internal Service Fund is used to account for the partially self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, and claims and judgments, are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restricted classifications - committed, assigned and then unassigned.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 2,500 |
| Buildings | 2,500 |
| Land improvements | 2,500 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,500 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|---|
| Buildings | 50 years |
| Land improvements | 20 years |
| Intangibles | 5-10 years |
| Machinery and equipment | 5-12 years |

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2012, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$3,438,223 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------|-------------------|
| General | Debt Service | \$ 150,565 |
| General | Nutrition | 16,666 |
| Total | | <u>\$ 167,231</u> |

The Debt Service Fund is repaying the General Fund for a shortfall in resources needed to pay the principal and interest on the District's general obligation bond indebtedness from fiscal 2011.

The Nutrition Fund is repaying the General Fund for salaries and benefits that was not repaid before the end of the year ended June 30, 2012.

(4) Transfers

The detail of interfund transfers for year end June 30, 2012 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|---|---------------------|
| Debt Service | Capital Projects: Physical Plant and Equipment Levy | \$ 47,551 |
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | 1,165,096 |
| Total | | <u>\$ 1,212,647</u> |

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for the principal and interest payment on the District's school bus lease.

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed to create the \$578,390 debt reserve fund for the August 1, 2011 revenue bond issuance as well as fund the debt sinking and revenue accounts for the same bond issuance.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|------------------|--------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 928,419 | - | - | 928,419 |
| Construction in progress | 121,627 | 4,674,389 | - | 4,796,016 |
| Total capital assets not being depreciated | <u>1,050,046</u> | <u>4,674,389</u> | <u>-</u> | <u>5,724,435</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 20,547,666 | 38,490 | - | 20,586,156 |
| Land improvements | 1,609,289 | 47,440 | - | 1,656,729 |
| Machinery and equipment | 2,333,695 | 20,568 | 9,000 | 2,345,263 |
| Total capital assets being depreciated | <u>24,490,650</u> | <u>106,498</u> | <u>9,000</u> | <u>24,588,148</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 6,931,241 | 614,737 | - | 7,545,978 |
| Land improvements | 976,705 | 80,336 | - | 1,057,041 |
| Machinery and equipment | 1,961,786 | 113,168 | 9,000 | 2,065,954 |
| Total accumulated depreciation | <u>9,869,732</u> | <u>808,241</u> | <u>9,000</u> | <u>10,668,973</u> |
| Total capital assets being depreciated, net | <u>14,620,918</u> | <u>(701,743)</u> | <u>-</u> | <u>13,919,175</u> |
| Governmental activities capital assets, net | <u>\$ 15,670,964</u> | <u>3,972,646</u> | <u>-</u> | <u>19,643,610</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|--------------|--------------|---------------------------|
| Business type activities: | | | | |
| Machinery and equipment | \$ 276,257 | 18,611 | 46,030 | 248,838 |
| Less accumulated depreciation | 211,425 | 10,903 | 38,986 | 183,342 |
| Business type activities capital assets, net | <u>\$ 64,832</u> | <u>7,708</u> | <u>7,044</u> | <u>65,496</u> |

Depreciation expense was charged by the District as follows:

| | | |
|--|--|-------------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | | \$ 8,695 |
| Other | | 1,389 |
| Support services: | | |
| Administration | | 1,976 |
| Operation and maintenance of plant | | 13,226 |
| Transportation | | 87,882 |
| | | <u>113,168</u> |
| Unallocated depreciation | | <u>695,073</u> |
| Total governmental activities depreciation expense | | <u>\$ 808,241</u> |
| Business type activities: | | |
| Food services | | <u>\$ 10,903</u> |

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|----------------------------------|---------------------------------|------------------|------------------|---------------------------|---------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$ 1,020,000 | - | 675,000 | 345,000 | 345,000 |
| Revenue Bonds | - | 7,660,000 | 320,000 | 7,340,000 | 295,000 |
| Bus Lease | 90,099 | - | 44,236 | 45,863 | 45,863 |
| Early Retirement | 188,388 | - | 62,796 | 125,592 | 62,796 |
| Compensated Absences | 56,397 | - | 56,397 | - | - |
| Net OPEB Liability | 189,350 | 178,994 | - | 368,344 | - |
| Total | <u>\$ 1,544,234</u> | <u>7,838,994</u> | <u>1,158,429</u> | <u>8,224,799</u> | <u>748,659</u> |
| Business type activities: | | | | | |
| Net OPEB Liability | <u>\$ 40</u> | <u>2,258</u> | <u>-</u> | <u>2,298</u> | <u>-</u> |

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of June 1, 2010 | | | |
|----------------------------|----------------------------|------------|----------|---------|
| | Interest Rates | Principal | Interest | Total |
| 2013 | 1.65 % | \$ 345,000 | 5,693 | 350,693 |

Revenue Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of August 1, 2011 | | | |
|----------------------------|------------------------------|--------------|-----------|------------|
| | Interest Rates | Principal | Interest | Total |
| 2013 | 1.00 % | \$ 295,000 | 230,305 | 525,305 |
| 2014 | 1.00 | 320,000 | 227,355 | 547,355 |
| 2015 | 1.25 | 355,000 | 223,355 | 578,355 |
| 2016 | 1.50 | 360,000 | 218,030 | 578,030 |
| 2017 | 1.75 | 365,000 | 211,730 | 576,730 |
| 2018-2022 | 2.00-3.20 | 1,955,000 | 919,650 | 2,874,650 |
| 2023-2027 | 3.35-4.00 | 2,310,000 | 570,890 | 2,880,890 |
| 2028-2030 | 4.10-4.25 | 1,380,000 | 101,740 | 1,481,740 |
| | | \$ 7,340,000 | 2,703,055 | 10,043,055 |

The District has pledged future statewide sales, services and use tax revenues to repay the \$7,660,000 of bonds issued in August 2011. The bonds were issued for the purpose of financing renovations to the Middle School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 45% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$10,043,055. For the current year, \$320,000 of principal and \$214,046 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$1,160,885.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$578,390 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.

- b) Monthly transfers from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Bus Lease Payable

Details of the District's June 30, 2012 bus lease payable, which is paid from the Physical Plant and Equipment Levy Fund, are as follows:

| Year Ending June 30, | Bus Lease October 16, 2008 | | | | |
|----------------------------|----------------------------|-------------|----------|--------|--|
| | Interest Rates | Principal | Interest | Total | |
| 2013 | 3.68 | % \$ 45,863 | 1,688 | 47,551 | |

Early Retirement

The District offered a voluntary early retirement plan to its full-time certified employees. Eligible employees must have attained the age of fifty-seven on or before August 15th of the year in which they wish to retire and had completed at least fifteen years of full-time contracted service. Employees completed an application which was required to be approved by the Board of Education.

Benefits to be paid to prospective early retirees were calculated by the lesser of \$25,000 or the difference between the employee's salary at the time of retirement excluding payments not included in the salary schedule and the BA Step 7 rate of pay in effect in the year of retirement. Retirees could elect to continue their existing health insurance coverage with the District as long as monthly premiums were paid to the District's Central Office (before the District makes the premium payment) and are permitted to continue coverage by the District's insurer. During the year ended June 30, 2012, the District paid \$62,796 for early retirement benefits.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$757,868, \$621,001 and \$603,760 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 147 active and 5 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Principal. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

| | |
|--|------------|
| Annual required contribution | \$ 94,821 |
| Interest on net OPEB obligation | 7,360 |
| Adjustment to annual required contribution | 88,005 |
| Annual OPEB cost | 190,186 |
| Contributions made | (8,934) |
| Increase in net OPEB obligation | 181,252 |
| Net OPEB obligation - beginning of year | 189,390 |
| Net OPEB obligation - end of year | \$ 370,642 |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2012.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 are summarized as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|--|---------------------------|
| 2010 | \$ 96,675 | 36.49% | \$ 122,325 |
| 2011 | 102,343 | 34.47% | 189,390 |
| 2012 | 190,186 | 4.70% | 370,642 * |

* Annual OPEB cost and net OPEB obligation increased due to switching to a different insurance carrier and change of plans offered during fiscal 2012.

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$0.703 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.703 million. The covered payroll (annual payroll of active employees covered by the plan) was \$8.763 million, and the ratio of the UAAL to the covered payroll was 8.0%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed from the aging cost assumptions from the 2006 Society of Actuaries. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

Atlantic Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$525,725 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

As of June 30, 2012, the District had entered into various contracts totaling \$7,939,635 for renovations at the Middle School. Costs of \$4,827,892 had been incurred by the District against these contracts. The remaining \$3,111,743 will be paid as work on the project progresses. The total cost of the improvements will be added to the District's capital asset listing upon completion.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amounts budgeted.

(13) Deficit Balances

The District had fourteen accounts within the Special Revenue: Student Activity Fund totaling \$47,901.

(14) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following projects:

| Project | Amount |
|---|-------------------|
| Home School Assistance Program | \$ 53,763 |
| Four-year-old Preschool State Aid | 158,414 |
| Beginning Teacher Mentoring and Induction Program | 3,672 |
| Teacher Development Academies | 4,000 |
| Beginning Administrator Mentoring and Induction Program | 1,500 |
| Model Core Curriculum | 7,405 |
| Professional Development for Model Core Curriculum | 63,629 |
| Professional Development | 105,585 |
| Total | <u>\$ 397,968</u> |

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|--|---------------------------------|-------------------------------|-----------------|------------------|-------------|--------------------------------|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 9,462,948 | 355,868 | 9,818,816 | 9,811,403 | 9,811,403 | 7,413 |
| State sources | 8,231,553 | 6,936 | 8,238,489 | 8,302,045 | 8,302,045 | (63,556) |
| Federal sources | 585,572 | 414,926 | 1,000,498 | 865,000 | 865,000 | 135,498 |
| Total revenues | 18,280,073 | 777,730 | 19,057,803 | 18,978,448 | 18,978,448 | 79,355 |
| Expenditures/Expenses: | | | | | | |
| Instruction | 10,793,135 | - | 10,793,135 | 11,275,580 | 11,275,580 | 482,445 |
| Support services | 5,054,734 | 2,826 | 5,057,560 | 5,944,052 | 5,944,052 | 886,492 |
| Non-instructional programs | 371 | 747,664 | 748,035 | 667,875 | 900,000 | 151,965 |
| Other expenditures | 6,678,031 | - | 6,678,031 | 2,327,700 | 4,500,000 | (2,178,031) |
| Total expenditures/expenses | 22,526,271 | 750,490 | 23,276,761 | 20,215,207 | 22,619,632 | (657,129) |
| Excess(deficiency) of revenues over(under) expenditures/expenses | (4,246,198) | 27,240 | (4,218,958) | (1,236,759) | (3,641,184) | (577,774) |
| Other financing sources, net | 7,536,297 | - | 7,536,297 | - | - | 7,536,297 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses | 3,290,099 | 27,240 | 3,317,339 | (1,236,759) | (3,641,184) | 6,958,523 |
| Balance beginning of year | 2,549,694 | 465,112 | 3,014,806 | 1,236,759 | 1,236,759 | 1,778,047 |
| Balance end of year | \$ 5,839,793 | 492,352 | 6,332,145 | - | (2,404,425) | 8,736,570 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2012, the District adopted one budget amendment, increasing budgeted expenditures by \$2,404,425.

During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amount budgeted.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial | | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|--------------------------------------|--|------------------------------------|--------------------------|---------------------------|---|
| | | | Accrued Liability (AAL) (b) | | | | | |
| 2010 | July 1, 2008 | 0 | \$ 795 | | 795 | 0.0% | \$ 9,207 | 8.6% |
| 2011 | July 1, 2008 | 0 | 795 | | 795 | 0.0% | 7,362 | 10.8% |
| 2012 | July 1, 2011 | 0 | 703 | | 703 | 0.0% | 8,763 | 8.0% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2012

| | Special Revenue | | |
|--|-------------------------|---------------------|----------------|
| | Manage- ment Levy | Student Activity | Total |
| Assets | | | |
| Cash and pooled investments | \$ 84,676 | 155,073 | 239,749 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 10,276 | - | 10,276 |
| Succeeding year | 225,000 | - | 225,000 |
| Accounts | - | 2,294 | 2,294 |
| Total Assets | \$ 319,952 | 157,367 | 477,319 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 10,521 | 10,521 |
| Deferred revenue: | | | |
| Succeeding year property tax | 225,000 | - | 225,000 |
| Total liabilities | 225,000 | 10,521 | 235,521 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 94,952 | - | 94,952 |
| Student activities | - | 194,747 | 194,747 |
| Unassigned | - | (47,901) | (47,901) |
| Total fund balances | 94,952 | 146,846 | 241,798 |
| Total Liabilities and Fund Balances | \$ 319,952 | 157,367 | 477,319 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2012

| | Special Revenue | | |
|------------------------------------|-------------------------|---------------------|---------|
| | Manage- ment Levy | Student Activity | Total |
| REVENUES: | | | |
| Local sources: | | | |
| Local tax | \$ 158,242 | - | 158,242 |
| Other | 23,129 | 446,333 | 469,462 |
| State sources | 172 | - | 172 |
| TOTAL REVENUES | 181,543 | 446,333 | 627,876 |
| EXPENDITURES: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 37,685 | - | 37,685 |
| Other | - | 430,258 | 430,258 |
| Support services: | | | |
| Administration | 25,518 | - | 25,518 |
| Operation and maintenance of plant | 98,557 | - | 98,557 |
| Transportation | 9,177 | - | 9,177 |
| Non-instructional programs: | | | |
| Food service operations | 371 | - | 371 |
| TOTAL EXPENDITURES | 171,308 | 430,258 | 601,566 |
| Net change in fund balances | 10,235 | 16,075 | 26,310 |
| Fund balances beginning of year | 84,717 | 130,771 | 215,488 |
| Fund balances end of year | \$ 94,952 | 146,846 | 241,798 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
JUNE 30, 2012

| | Capital Projects | | | |
|--|--|----------------------|--|------------------|
| | Statewide Sales, Services and Use Tax | Building Projects | Physical Plant and Equipment Levy | Total |
| Assets | | | | |
| Cash and pooled investments | \$ 3,325,450 | 10,349 | 289,727 | 3,625,526 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | - | - | 11,133 | 11,133 |
| Succeeding year | - | - | 238,411 | 238,411 |
| Income surtax | - | - | 243,136 | 243,136 |
| Due from other governments | 173,889 | - | 80,441 | 254,330 |
| Total Assets | \$ 3,499,339 | 10,349 | 862,848 | 4,372,536 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 551,468 | - | 60,206 | 611,674 |
| Deferred revenue: | | | | |
| Succeeding year property tax | - | - | 238,411 | 238,411 |
| Income surtax | - | - | 243,136 | 243,136 |
| Total liabilities | 551,468 | - | 541,753 | 1,093,221 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Construction | 2,407,221 | - | - | 2,407,221 |
| School infrastructure | 540,650 | 10,349 | - | 550,999 |
| Physical plant and equipment | - | - | 321,095 | 321,095 |
| Total fund balances | 2,947,871 | 10,349 | 321,095 | 3,279,315 |
| Total Liabilities and Fund Balances | \$ 3,499,339 | 10,349 | 862,848 | 4,372,536 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

| | Capital Projects | | | |
|--|--|----------------------|--|-------------|
| | Statewide Sales, Services and Use Tax | Building Projects | Physical Plant and Equipment Levy | Total |
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 1,160,885 | - | 450,131 | 1,611,016 |
| Other | 4,316 | - | 2,457 | 6,773 |
| State sources | - | - | 223 | 223 |
| Federal sources | - | - | 62,031 | 62,031 |
| TOTAL REVENUES | 1,165,201 | - | 514,842 | 1,680,043 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | - | - | 3,190 | 3,190 |
| Support services: | | | | |
| Instructional staff | - | - | 65,102 | 65,102 |
| Administration | 49,619 | - | - | 49,619 |
| Operation and maintenance of plant | 15,024 | - | 199,059 | 214,083 |
| Transportation | - | - | 4,676 | 4,676 |
| Capital outlay | 4,682,408 | - | 199,171 | 4,881,579 |
| TOTAL EXPENDITURES | 4,747,051 | - | 471,198 | 5,218,249 |
| Excess(Deficiency) of revenues over(under) expenditures | (3,581,850) | - | 43,644 | (3,538,206) |
| Other financing sources(uses): | | | | |
| Transfer out | (1,165,096) | - | (47,551) | (1,212,647) |
| Revenue bond issuance | 7,660,000 | - | - | 7,660,000 |
| Premium on revenue bond issuance | 707 | - | - | 707 |
| Discount on revenue bond issuance | (128,142) | - | - | (128,142) |
| Total other financing sources(uses) | 6,367,469 | - | (47,551) | 6,319,918 |
| Net change in fund balances | 2,785,619 | - | (3,907) | 2,781,712 |
| Fund balances beginning of year | 162,252 | 10,349 | 325,002 | 497,603 |
| Fund balances end of year | \$ 2,947,871 | 10,349 | 321,095 | 3,279,315 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COOMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|--------------------------------|---------------------------------|----------|-------------------|---------------------------|
| Drama | \$ 1,129 | 685 | 754 | 1,060 |
| Debate | 723 | 3,000 | 1,285 | 2,438 |
| Vocal Music | 1,911 | 20,217 | 15,229 | 6,899 |
| Middle School Vocal Music | 867 | 3,614 | 3,881 | 600 |
| Show Choir Costume | 10,367 | 5,588 | 561 | 15,394 |
| High School Band | 1,879 | 89,353 | 109,599 | (18,367) |
| High School Color Guard | 1,662 | 104 | 13 | 1,753 |
| Middle School Band | 5,011 | 3,511 | 7,338 | 1,184 |
| Musical | 2,547 | 4,079 | 1,550 | 5,076 |
| High School Cross Country | (2,111) | 1,715 | 2,716 | (3,112) |
| Middle School Cross Country | (166) | - | 80 | (246) |
| Boys Basketball | 6,198 | 19,014 | 9,426 | 15,786 |
| Middle School Boys Basketball | (300) | - | 1,068 | (1,368) |
| Football | 18,248 | 44,857 | 16,337 | 46,768 |
| Middle School Football | (968) | - | 1,480 | (2,448) |
| Soccer | (368) | 3,486 | 3,534 | (416) |
| Baseball | 475 | 11,627 | 24,959 | (12,857) |
| Boys Track | 2,215 | 5,820 | 7,561 | 474 |
| Middle School Boys Track | (244) | - | 1,271 | (1,515) |
| Boys Tennis | 216 | 3,029 | 1,163 | 2,082 |
| Boys Golf | (1,245) | 2,819 | 2,983 | (1,409) |
| Wrestling | 10,616 | 14,822 | 24,793 | 645 |
| Middle School Wrestling | 2,606 | - | 649 | 1,957 |
| High School Girls Basketball | 3,520 | 11,420 | 6,580 | 8,360 |
| Middle School Girls Basketball | (735) | - | 730 | (1,465) |
| High School Volleyball | 158 | 12,449 | 9,537 | 3,070 |
| High School Speech | 1,060 | - | 3,053 | (1,993) |
| Girls Soccer | 428 | 3,439 | 3,449 | 418 |
| Softball | (1,381) | 30,955 | 30,220 | (646) |
| High School Girls Track | 4,812 | 6,923 | 5,473 | 6,262 |
| Middle School Girls Track | (413) | 360 | 157 | (210) |
| Girls Tennis | 1,542 | 2,988 | 4,364 | 166 |
| Girls Golf | 1,909 | 1,804 | 1,723 | 1,990 |
| National Honor Society | 84 | 3,020 | 336 | 2,768 |
| Student Council | 2,587 | 12,927 | 12,408 | 3,106 |
| FFA | 7,840 | 33,339 | 31,347 | 9,832 |
| Middle School Student Council | 450 | 2,159 | 4,458 | (1,849) |
| Prime Time | 4,037 | 204 | 747 | 3,494 |
| MS Activities | 140 | 734 | 443 | 431 |

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|---------------------------|---------------------------------|----------|-------------------|---------------------------|
| Javelin | 9,897 | 17,617 | 9,019 | 18,495 |
| Cheerleaders | 7,335 | 15,671 | 18,794 | 4,212 |
| Pride | 3,676 | 5,433 | 7,593 | 1,516 |
| Schuler Student Council | 4,064 | 89 | - | 4,153 |
| Jr Class Prom | 4,337 | 8,185 | 3,390 | 9,132 |
| Coke | 878 | 1,916 | - | 2,794 |
| General Activity | 10,943 | 29,647 | 35,120 | 5,470 |
| Student Connection | 1,561 | 576 | 746 | 1,391 |
| Operation Special Kids | 3 | - | - | 3 |
| Hosp BD Activity | 178 | 3,435 | 2,341 | 1,272 |
| Schuler Resource Activity | 190 | - | - | 190 |
| Insuff. Funds | (52) | 3,466 | - | 3,414 |
| Level II SPED | 43 | - | - | 43 |
| Interest | 412 | 237 | - | 649 |
| Total | \$ 130,771 | 446,333 | 430,258 | 146,846 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2012

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|-----------------------------|---------------------------------|-----------|------------|---------------------------|
| Assets | | | | |
| Cash and pooled investments | \$ 6,359 | 3,203 | 9,562 | - |
| Liabilities | | | | |
| Due to other groups | \$ 6,359 | 3,203 | 9,562 | - |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST NINE YEARS

| | Modified Accrual Basis | | | | | | | | |
|----------------------------|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | Years Ended June 30, | | | | | | | | |
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | | | |
| Local sources: | | | | | | | | | |
| Local tax | \$ 7,810,080 | 7,391,052 | 6,871,584 | 6,475,866 | 5,976,105 | 5,657,116 | 5,519,381 | 4,636,402 | 4,252,623 |
| Tuition | 839,800 | 1,050,609 | 1,144,334 | 1,136,351 | 1,034,146 | 1,013,833 | 905,598 | 804,293 | 742,794 |
| Other | 813,068 | 854,453 | 654,946 | 617,852 | 914,129 | 644,158 | 858,431 | 499,693 | 457,789 |
| Intermediate sources | | - | - | - | - | - | - | - | 7,121 |
| State sources | 8,231,553 | 7,574,184 | 6,901,842 | 7,682,348 | 7,348,171 | 7,006,302 | 6,380,868 | 6,015,939 | 5,956,968 |
| Federal sources | 585,572 | 983,670 | 1,539,835 | 743,984 | 441,246 | 403,571 | 438,369 | 516,049 | 378,137 |
| Total | \$ 18,280,073 | 17,853,968 | 17,112,541 | 16,656,401 | 15,713,797 | 14,724,980 | 14,102,647 | 12,472,376 | 11,795,432 |
| Expenditures: | | | | | | | | | |
| Instruction: | | | | | | | | | |
| Regular | \$ 6,807,422 | 6,206,164 | 6,176,665 | 6,252,296 | 5,893,497 | 5,717,955 | 5,410,666 | 5,000,500 | 4,936,636 |
| Special | 2,156,126 | 2,296,607 | 2,258,358 | 2,622,408 | 2,469,704 | 2,160,567 | 1,921,407 | 1,502,442 | 1,615,769 |
| Other | 1,829,587 | 1,721,124 | 1,906,405 | 1,598,669 | 1,597,619 | 896,025 | 831,840 | 1,123,659 | 703,959 |
| Support services: | | | | | | | | | |
| Student | 348,426 | 417,724 | 458,038 | 426,546 | 380,348 | 375,303 | 387,154 | 306,622 | 340,420 |
| Instructional staff | 874,448 | 630,764 | 608,228 | 594,531 | 706,069 | 597,916 | 578,921 | 455,264 | 326,908 |
| Administration | 1,537,407 | 1,391,061 | 1,458,125 | 1,453,341 | 1,316,769 | 1,232,323 | 1,100,090 | 1,011,689 | 972,797 |
| Operation and maintenance | | | | | | | | | |
| of plant | 1,750,613 | 1,307,329 | 1,230,056 | 1,260,802 | 1,217,498 | 1,198,317 | 1,193,207 | 1,056,285 | 976,804 |
| Transportation | 543,840 | 598,783 | 579,645 | 712,917 | 531,663 | 521,875 | 512,138 | 431,331 | 361,088 |
| Central support | | - | - | - | - | - | - | 4,745 | 2,663 |
| Non-instructional programs | 371 | 11,423 | 12,246 | 12,644 | 12,398 | 10,133 | 8,681 | 20,778 | 17,284 |
| Capital outlays | 4,881,579 | 2,116,793 | 2,464,044 | 2,095,735 | 108,805 | 379,086 | 612,430 | 194,372 | 133,377 |
| Long-term debt: | | | | | | | | | |
| Principal | 1,039,236 | 742,666 | 681,151 | 615,000 | 595,000 | 565,000 | 545,000 | 525,000 | 510,000 |
| Interest and other charges | 231,491 | 24,255 | 117,218 | 130,573 | 155,116 | 178,422 | 200,904 | 222,560 | 243,597 |
| Other expenditures: | | | | | | | | | |
| AEA flow-through | 525,725 | 581,707 | 569,666 | 518,992 | 476,641 | 456,669 | 410,189 | 406,718 | 415,603 |
| Total | \$ 22,526,271 | 18,046,400 | 18,519,845 | 18,294,454 | 15,461,127 | 14,289,591 | 13,712,627 | 12,261,965 | 11,556,905 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|--|----------------|-----------------|-------------------------|
| INDIRECT: | | | |
| DEPARTMENT OF AGRICULTURE: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 12 | \$ 54,000 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 12 | 350,060 * |
| SUMMER FOOD SERVICE PROGRAM FOR CHILDREN | 10.559 | FY 12 | 10,866 |
| | | | <u>414,926</u> |
| DEPARTMENT OF EDUCATION: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | FY 12 | <u>234,363</u> |
| SPECIAL EDUCATION - GRANTS TO STATES(PART B HI COST CLAIMS) | 84.027 | FY 12 | <u>10,448 **</u> |
| FUND FOR THE IMPROVEMENT OF EDUCATION | 84.215 | FY 12 | <u>62,031</u> |
| PARENTAL INFORMATION AND RESOURCE CENTERS | 84.310 | FY 11 | <u>517</u> |
| ADVANCED PLACEMENT PROGRAM | 84.330 | FY 12 | <u>77</u> |
| IMPROVING TEACHER QUALITY STATE GRANTS | 84.367 | FY 12 | <u>57,533</u> |
| GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES(TITLE VI A) | 84.369 | FY 12 | <u>9,523</u> |
| ARRA - STATE FISCAL STABILIZATION FUND(SFSF) | | | |
| STATE AID | 84.397 | FY 11 | <u>74,912</u> |
| EDUCATION JOBS FUND | 84.410 | FY 12 | <u>4,213</u> |
| IOWA WESTERN COMMUNITY COLLEGE: | | | |
| CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES | 84.048 | FY 12 | <u>13,454</u> |
| AREA EDUCATION AGENCY: | | | |
| SPECIAL EDUCATION - GRANTS TO STATES(PART B) | 84.027 | FY 12 | <u>74,605 **</u> |
| ENGLISH LANGUAGE ACQUISITION GRANTS | 84.365 | FY 12 | <u>1,953</u> |
| TOTAL | | | <u>\$ 958,555</u> |

* - Includes \$50,559 of non-cash awards.

** - Total expenditures for CFDA Number 84.027 are \$85,053.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Atlantic Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Atlantic Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Atlantic Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Atlantic Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Atlantic Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Atlantic Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Atlantic Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-12 and II-E-12 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Atlantic Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Atlantic Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Atlantic Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

December 20, 2012

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Board of Education of
Atlantic Community School District:

Compliance

We have audited the compliance of Atlantic Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Atlantic Community School District's major federal programs for the year ended June 30, 2012. Atlantic Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Atlantic Community School District's management. Our responsibility is to express an opinion on Atlantic Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Atlantic Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Atlantic Community School District's compliance with those requirements.

In our opinion, Atlantic Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Atlantic Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Atlantic Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Atlantic Community School District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson PC". The signature is stylized and cursive.

NOLTE, CORNMAN & JOHNSON, P.C.

December 20, 2012

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses or significant deficiencies in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Atlantic Community School District qualified as a low-risk auditee.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Bank Reconciliations - We noted during our audit that bank reconciliations for all funds were not completed or reconciled to the general ledger in a timely manner.

Recommendation - The District should reconcile bank statement balances to financial statement balances on a monthly basis. The bank reconciliation when performed timely, and reconciling items adjusted would provide support for the cash position. This would allow the user of the monthly financial statements a higher confidence in the amount of cash reflected on the balance sheet.

If the accounting staff is not comfortable using the accounting software to perform bank reconciliations, the District should consider sending their accounting staff to software training on bank reconciliations.

Response - The District is in the process of training accounting staff on the proper way to perform bank reconciliations.

Conclusion - Response accepted.

- II-B-12 Accounting Personnel - The District appears to have experienced substantial changes in accounting personnel and reassignment of duties for bank reconciliations, payroll and accounts payable during the year. As a result, several adjustments were subsequently made by the District to record the proper amounts before the upload of the District's 2012 CAR.

Recommendation - As a result of the changes in accounting personnel and duties assigned, if the accounting staff is not comfortable using the accounting software, Software Unlimited offers training and support for employees to carry out the accounting functions. The accounting staff may want to review District policies and procedures in place to gain a better understanding of how the accounting function is supposed to operate in the District.

Response - The District is in the process of training accounting personnel for their assigned duties. Personnel are also being cross trained to cover duties in the case of absences.

Conclusion - Response accepted.

- II-C-12 Grant Coding - We noted during our audit, a lack of oversight concerning grant activity, specifically for administrative personnel coding grant expenditures. Grant expenditures were not always being coded to the correct projects thus creating the need for numerous adjustments at year end to reclass expenditures to the proper grant projects.

Recommendation - The District should review procedures in place for coding of bills, to ensure that all bills paid for a specific grant or projects are properly coded. Grant coordinators should identify on the purchase order for goods to what grant project the expense should be coded.

The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - Central Office staff is working with building principals on the proper way to code expenses on purchase orders and work within line item budgets that are now being used at each building.

Conclusion - Response accepted.

- II-D-12 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund has an interest account. It appears that interest earned during the year has not been allocated to individual accounts in the Student Activity Fund.

Recommendation - Interest earned each year should be allocated out on an annual basis to the individual activity accounts.

Response - Interest will be allocated at least once a year to individual activity fund accounts in the future.

Conclusion - Response accepted.

- II-E-12 Wage Garnishment - We noted during our audit that the District had garnished the wages of an employee, but the remittance of the garnishment had not been completed. At audit time, it was not readily known whether the garnishment should have been in effect during the fiscal year.

Recommendation - The District needs to research the employee's garnishment and determine if the garnishment was still to be in effect during the fiscal year. After this determination, the District needs to take the appropriate measures to rectify the situation.

Response - The District contacted the Department of Revenue and determined that the garnishment should not have been in effect. The amount held by the District for the garnishment was returned to the employee.

Conclusion - Response accepted.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the amount budgeted in the other expenditures functional area.

Recommendation - The budget should have been satisfactorily amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, the District will amend the budget in accordance with Chapter 24.9 of the Code of Iowa before the budgeted amounts are exceeded.

Conclusion - Response accepted.

- IV-B-12 Questionable Disbursements - We noted during our audit expenditures for coaches' clothing from the General Activity account in the Student Activity Fund. After conversation with District officials, there was documentation found that the clothing had been purchased from funds received from the Booster Club. Once the District has received funds from the Booster Club and receipted them to the Student Activity Fund, the revenues are considered "public funds" and should not be spent for coaches' clothing.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club to purchase the clothing directly and distribute to employees. In this manner, the District would have no involvement in the process and would not have the difficulty in providing public purpose for purchasing clothing for coaches.

Response - The Booster Club is now handling the purchasing and distribution of clothing for coaches.

Conclusion - Response accepted.

- IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. However we noted during our audit that an employee purchased meals while on District business but failed to turn in a detailed receipt of the purchase to the District office. Board policy 401.10 states that employees and officers using a school district credit card must submit a detailed receipt in addition to a credit card receipt indicating the date, purpose and nature of the expense for each claim item. Failure to provide a proper receipt will make the employee responsible for expenses incurred.

Recommendation - The District should review procedures in place when employees use the District's credit card for expenses. Detailed receipts should be turned into the District central office for processing travel expenses. If detailed receipts are not available, the cost should be borne by the employee in accordance with District policy.

Response - The District has reviewed procedures in place. Central office staff has been instructed not to reimburse if detailed receipts are not supplied for travel expenses.

Conclusion - Response accepted.

IV-D-12 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|--|----------------------------|----------|
| Barb Olson, Teacher Spouse owns Olson Fuel Supply, Inc. | Fuel (per bid) | \$94,704 |
| DeeAnn Schreiner, Food Service Director Spouse is manager for Reinhart Food Service | Purchased Services | \$49,029 |

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouses of employees do not appear to cause a conflict of interest.

IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-12 Supplementary Weighting - No variances in the supplementary weighting data certified to the Iowa Department of Education were noted. However, we noted during our audit that one student reported on the English Language Learner summary on Project Easier had been underfunded by 0.22.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | | | |
|---------------------------------------|----|-----------|------------------|
| Beginning Balance | | \$ | 162,252 |
| Revenues: | | | |
| Statewide sales, services and use tax | \$ | 1,160,885 | |
| Revenue bond issuance | | 7,660,000 | |
| Premium on revenue bond issuance | | 707 | |
| Other local revenues | | 4,316 | 8,825,908 |
| | | | <u>8,988,160</u> |
| Expenditures/transfers out: | | | |
| School infrastructure construction | \$ | 4,551,399 | |
| Equipment | | 15,024 | |
| Other | | 308,770 | |
| Transfers to other funds: | | | |
| Debt service | | 1,165,096 | 6,040,289 |
| | | | <u>6,040,289</u> |
| Ending Balance | | \$ | <u>2,947,871</u> |

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 Financial Condition - The District also had fourteen accounts in the Student Activity Fund that had deficit balances at the end of the year totaling \$47,901.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit accounts. The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - Activity Fund sponsors have been made aware that they need to have work out plans for deficit accounts. Purchases from deficit accounts are being monitored more closely to avoid an increasing deficit balance.

Conclusion - Response accepted.

IV-N-11 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the

extracurricular and co-curricular activities offered as part of the District's educational program. More specific examples of these instances of questioned items and recommendations are as follows:

Commissions: We noted Life Touch picture commissions were being recorded in the MS Pride account in the Student Activity Fund.

Recommendation - The only legal fund to receipt all commissions is the General Fund; therefore in the future the District should record Life Touch picture commissions to the General Fund.

Response - Life Touch picture commissions are now being receipted to the General Fund.

Conclusion - Response accepted.

Administratively Maintained Accounts: We noted during our audit the District had a Coke Fund account in the Student Activity Fund. This account is not a student run organization and does not appear to be extracurricular in nature and should therefore, be run through the General Fund.

Recommendation - The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The Coke Fund account has now been moved to the General Fund.

Conclusion - Response accepted.

Scholarship Awards: We noted during our audit that scholarship awards were paid from the HS Student Council and FFA accounts in the Student Activity Fund. It appeared that the money for the scholarship awards was being taken from excess funds in the account.

Recommendation - The District already has a Private Purpose Trust Fund established for recording of revenues and expenditures for scholarship awards. In the future, revenues and expenses for these scholarships should be recorded and subsequently expended from the Private Purpose Trust. If these groups intend on awarding scholarships each year, the groups needs to fundraise specifically for that purpose each year. The sponsor or governing body of the student council cannot arbitrarily decide to award scholarships from the profits of fundraisers or left over funds in their respective accounts.

Response - The District will work with sponsors to ensure compliance regarding fundraising procedures for scholarships. Scholarship awards will be accounted for in the Private-Purpose Trust Fund.

Conclusion - Response accepted.